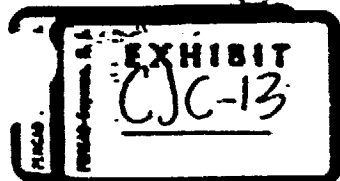


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U.S. / IRANIAN CONTACTS AND THE AMERICAN HOSTAGES

From the earliest months following the Islamic revolution in Iran, the U.S. Government has attempted to reestablish official contact with that government in order to discuss strategic developments in this critical part of the world and reconstruct a working relationship. Even before President Reagan came to office the U.S. Government agreed to try to expand security, economic, political, and intelligence relationships at a pace acceptable to Tehran. In the fall of 1979, the U.S. undertook three secret missions to Tehran:

- September 1979 - [REDACTED] (met secretly with Bazargan at the request of the Iranians)
- October 1979 - [REDACTED]
- October-November 1979 - [REDACTED] (discussed normalization of relations)

When these meetings and the secret November 1, 1979 meeting in Algiers, between Brzezinski and Prime Minister Bazargan, became public in Iran, they helped precipitate the takeover of the U.S. Embassy by radical elements and led to the resignation of the Bazargan government. These events have adversely influenced Iran's subsequent willingness to engage in any direct contact with the USG.

Despite mutual difficulties involved in re-establishing normal relations, our strategic interests in the Persian Gulf mandate persistent efforts to establish a dialogue. In this regard, it is notable that only a few major countries do not have relations with Iran -- Egypt, Jordan, Morocco, Israel, South Africa, and the United States. Even Iraq continues to have diplomatic relations with Iran.

Iran is the key to a region of vital importance to the West, yet it is increasingly threatened by growing Soviet military power and political influence along its borders and inside its territory. Over the course of the last two years, the Soviets and their surrogates have moved actively to gain greater influence in the Gulf:

- The Soviets believe that once Khomeini dies, they will have an excellent opportunity to influence the formation of a government in Tehran that serves Soviet strategic interests in the area.

Partially Declassified / Released on 22 June 1987  
Under provisions of E.O. 12356  
by B. Régér, National Security Council

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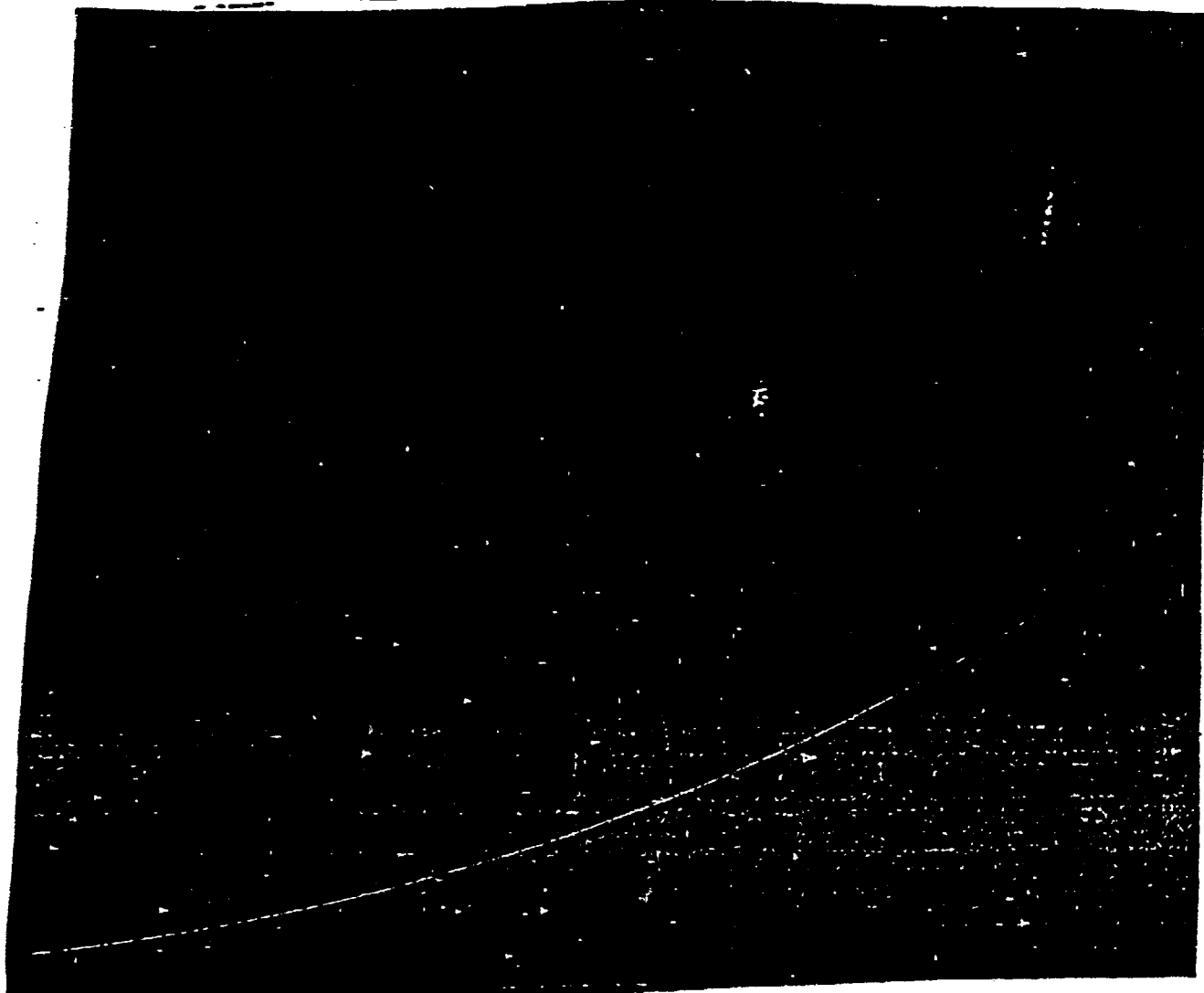
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-- Communist nations have become the principal arms suppliers to Iran -- making Iran dependent on this source of supply in contending with an increasingly strengthened Iraq. This leads us to the conclusion that the Soviets may well be attempting to pursue their own revolution in Iran. That is, by fueling both sides in the conflict, the Soviets could well encourage a disastrous "final offensive" by Iran that would precipitate a political disintegration in Iran, leaving a power vacuum which the Soviets could exploit. Specifically, the indicators of Communist influence in Iran are:



The increasing desperation brought on by the costs of the Iran-Iraq war has exacerbated Iran's vulnerability to Soviet influence. Moreover, Soviet designs in Afghanistan, pressure on Pakistan, and actual crossborder strikes in Iran from Afghanistan have made reopening a strategic dialogue increasingly important.

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In short, the Soviets were far better positioned to improve significantly their influence in the region in 1985 when we were presented with an opportunity to open a dialogue with Iran. In deciding to exploit this opening, we evaluated previous efforts through more conventional channels which had not succeeded.

About two years ago, senior Iranian officials apparently decided that some accommodation with the U.S. was necessary. Since 1983, various countries have been engaged in overtures to the U.S. and Iran in an effort to stimulate direct contact [REDACTED]

[REDACTED] However, internal splits and debates made it difficult for the Iranians to respond to these overtures.

Numerous individuals and private parties have likewise attempted to be helpful as intermediaries in establishing contact in Iran or in seeking Iranian assistance in the release of our citizens held hostage in Lebanon. [REDACTED]

In the spring of 1985, a private American citizen (Michael Ledeen) learned from an Israeli government official (David Kimche) that the Israelis had established a liaison relationship with an Iranian expatriate (Manuchehr Ghorbanifar) in Europe who sought Israeli help in establishing contact with the U.S. Government. In acknowledging the need to demonstrate the bonafides of the Iranian officials involved, he (Ghorbanifar) indicated that his "sponsors" in Tehran could also help to resolve the American hostage situation in Beirut.

In June of 1985, in the midst of the TWA-847 hijacking, the Israeli officials in direct contact with the Iranian expatriate asked him to use his influence with senior Iranian officials to obtain the release of the hijacked passengers. Two days after this approach, four Americans held separately from the rest of the hijacked passengers were freed and turned over to Syrian authorities. [REDACTED] Majlis Speaker Rafsanjani, who was travelling in the mid-east at the time, and Iranian Foreign Minister Velayati both intervened with the captors. Rafsanjani, in his speech on November 4, 1986, for the first time publicly acknowledged his role in this matter.

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On July 1, 1985, during a visit to Washington, an Israeli official (Kimche) advised National Security Advisor, Robert McFarlane, that Israel had established a channel of communication with authoritative elements in Iran who were interested in determining whether the United States was open to a discreet, high-level dialogue. The Iranians were described as comprising the principal figures of the government (i.e., Speaker of the Majlis Rafsanjani, Prime Minister Musavi, and Khomeini's heir-apparent, Ayatollah Montazeri) and as being devoted to a reorientation of Iranian policy.

At this first meeting, McFarlane went to great length to draw out the Israeli as to why he found the Iranian proposal credible, given the events of the past six years. The Israeli replied that their exhaustive analysis had gone beyond the surface logic deriving from the chaos and decline within Iran and the degenerative effects of the war, to more concrete tests of the willingness of the Iranians to take personal risks. He noted that the Iranians had exposed themselves to possible compromise by meeting with Israelis and by passing extremely sensitive intelligence on the situation (and political line-up<sup>1</sup> within Iran -- information which was proven valid.

The Israeli asked for our position on opening such a dialogue. No mention was made of any pre-conditions or Iranian priorities. McFarlane conveyed this proposal to the President (in the presence of the Chief of Staff). The President said that he believed such a dialogue would be worthwhile at least to the point of determining the validity of the interlocutors. This decision was passed to the Israeli diplomat by telephone on July 30.

On August 2, 1985, the Israeli called again on McFarlane. At this meeting, he stated that he had conveyed our position to the Iranian intermediary and that the Iranians had responded that they recognized the need for both sides to have tangible evidence of the bona fides of the other and that they believed they could affect the release of the Americans held hostage in Lebanon.

According to the Israeli, the Iranians separately stated that they were vulnerable as a group and before having any prospect of being able to affect change within Iran they would need to be substantially strengthened. To do so, they would need to secure the cooperation of military and/or Revolutionary Guard leaders. Toward this end, they expressed the view that the most credible demonstration of their influence and abilities would be to secure limited amounts of U.S. equipment. The Israeli asked for our position on such actions.

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Mr. McFarlane elevated this proposition to the President at a meeting within days that included the Secretaries of State and Defense and the Director of Central Intelligence. The President stated that, while he could understand that assuming the legitimacy of the interlocutors, they would be quite vulnerable and ultimately might deserve our support to include tangible materiel; at the time, without any first hand experience in dealing with them, he could not authorize any transfers of military materiel. This was conveyed to the Israeli.

On August 22, 1985, the Israeli diplomat called once more to report that the message had been conveyed and that an impasse of confidence existed. He asked what the position of the U.S. Government would be to an Israeli transfer of modest quantities of defensive military materiel. McFarlane replied that to him, such an action would represent a distinction without a difference. The Israeli diplomat explained at great length that Israel had its own policy interests that would be served by fostering such a dialogue in behalf of the U.S., but that a problem would arise when ultimately they needed to replace items shipped. He asked whether Israel would be able to purchase replacements for items they chose to ship. McFarlane stated that the issue was not the ability of Israel to purchase military equipment from the U.S. -- they had done so for a generation and would do so in the future -- but rather the issue was whether it was U.S. policy to ship or allow others to ship military equipment to Iran. The Israeli asked for a position from our government. McFarlane elevated the question to the President (and to the Secretaries of State and Defense and the Director of Central Intelligence). The President stated that, while he could envision providing materiel support to moderate elements in Iran if all the Western hostages were freed, he could not approve any transfer of military materiel at that time. This position was conveyed to the Israeli diplomat.

On September 14, 1985, Reverend Benjamin Weir was released in Beirut by the Islamic Jihad Organization. This release was preceded by an intense effort on the part of Mr. Terry Waite, the Special Emissary of the Archbishop of Canterbury. To this date, Mr. Waite remains the only Westerner to ever meet directly with the Lebanese kidnappers.

[REDACTED]

In late September, we learned that the Israelis had transferred 508 TOW missiles to Iran and that this shipment had taken place in late August. The Israelis told us that they undertook the action, despite our objections, because they believed it to be in their strategic interests. The Israelis managed this entire operation, to include delivery arrangements, funding, and transportation. After discussing this matter with the President, it was decided not to expose this Israeli delivery because we

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wanted to retain the option of exploiting the existing Israeli channel with Tehran in our own effort to establish a strategic dialogue with the Iranian government. The total value of the 508 TOWs shipped by Israel was estimated to be less than \$2 million.

On October 4, 1985, Islamic Jihad announced that it had "executed" Beirut Station Chief William Buckley in retaliation for the October 1 Israeli air raid on PLO installations in Tunis. This announcement led to a series of meetings in Europe among the U.S. (CIA and NSC), Israeli, and Iranian intermediaries. In these meetings, the Iranians indicated that, while their ability to influence the Hizballah was waning, the Hizballah had not killed Buckley; he had in fact died several months earlier of natural causes. We have since substantiated this information in debriefings of Father Jenco and David Jacobsen, both of whom indicate that Buckley probably died on June 3, 1985 of pneumonia-like symptoms.

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In mid-November, the Israelis through a senior officer in the Prime Minister's office (Amiram Nir), indicated that the Government of Israel was convinced that they were nearing a breakthrough with Iran on a high-level dialogue. The Israeli asked a U.S. official (North) for the name of a European-based airline which could discreetly transit to Iran for the purpose of delivering passengers and cargo. We were assured, at the time, that the Israelis were going to "try oil drilling parts as an incentive," since we had expressed so much displeasure over the earlier TOW shipment. The name of the proprietary [redacted] was passed to the Israeli, who subsequently had the aircraft chartered through normal commercial contract for a flight from Tel Aviv to Tabriz, Iran, on November 25, 1985. In January, we learned that the Israelis, responding to urgent entreaties from the Iranians, used the aircraft to transport 18 HAWK missiles to Iran in an effort to improve the static air defenses around Tehran. The Israelis were unwitting of the CIA's involvement in the airline and the airline was paid at the normal commercial rate (approximately \$127,700). The airline personnel were also unwitting of the cargo they carried. Pilot knew.

*how?*  
*who?*  
*by whom*  
The Israeli delivery of HAWK missiles raised serious U.S. concerns that these deliveries were jeopardizing our objective of arranging a direct meeting with high-level Iranian officials. As a consequence of U.S. initiative and by mutual agreement of all three parties, these missiles were subsequently returned to Israel in February 1986.

On December 7, the President convened a meeting in the White House (residence) to discuss next steps in our efforts to establish direct contact with the Iranians. Attending the

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meeting were the Chief of Staff, Secretaries of State and Defense, the Deputy Director of Central Intelligence, and the Assistant to the President for National Security Affairs and his Deputy. Immediately after the meeting, Mr. McFarlane departed for London to meet with the Israeli official and the Iranian contact to make clear the nature of our interest in a dialogue with Iran. At this meeting, Mr. McFarlane, as instructed by the President, stated that:

- the U.S. was open to a political dialogue with Iran, but that no such dialogue could make progress for as long as groups seen as dominated by Iran held U.S. hostages; and
- the U.S. could under no circumstances transfer arms to Iran in exchange for hostages.

These points were made directly to the Iranian interlocutor. The Iranian replied that, unless his associates in Tehran were strengthened, they could not risk going ahead with the dialogue. Mr. McFarlane acknowledged the position but stated we could not change our position. In a separate meeting with the Israeli official, Mr. McFarlane made clear our strong objections to the Israeli shipment of the TOW missiles. Following these meetings, Mr. McFarlane returned to Washington and shortly thereafter left active government service.

On January 2, the Prime Minister of Israel dispatched a special emissary to the U.S. (Amiram Nir) to review proposals for next steps in dealing with Iran. The Israelis urged that we reconsider the issue of providing limited defensive arms to those attempting to take power in Tehran, since all other incentives (economic assistance, medical supplies, machine parts) were of no value in shoring-up those who wanted an opening to the West. Admiral Poindexter noted our stringent objections to the HAWK missile shipments in November and noted that the U.S. would have to act to have them returned (a step undertaken in February, when all 18 missiles were returned to Israel). In that any implementation of the Israeli proposals would require the active participation of the intelligence community, the NSC Staff (North) was tasked to prepare a covert action finding. Work on this Presidential finding commenced on January 4.

Hawk  
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On January 6, the President, the Vice President, the Chief of Staff, and the National Security Advisor and his assistant reviewed the first draft of the Finding and the recommendations made by the Prime Minister of Israel through his special emissary.

On January 7, the President met in the Oval Office with the Vice President, the Chief of Staff, Secretaries Shultz and Weinberger, Attorney General Meese, Director Casey, and the National Security

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Advisor to discuss the overall situation in Iran and prospects for a strategic dialogue. It was again noted that Mr. McFarlane, on return from his trip to London, had recommended that no further action be taken unless a mechanism could be established by which the U.S. could exert better control over events. He agreed, in principle, with Director Casey that providing limited quantities of defensive arms after the hostages were released still had merit. Both Secretary Shultz and Secretary Weinberger objected to any provision of arms, citing that we could not be sure that these would really help moderate elements and that, if exposed, the project would not be understood by moderate Arabs and would be seen as contravening our policy of not dealing with states that support terrorism. The President decided that we should attempt to keep the Israeli channel active as long as it offered possibilities for meetings with high-level Iranian officials and left open the issue of providing defensive arms to Iran if all the hostages were released.

It was further determined by the President that any dialogue with the Iranians must be aimed at achieving the following goals:

- Devising a formula for re-establishing a strategic relationship with Tehran.
- Ending the Iran-Iraq War on honorable terms.
- Convincing Iran to cease its support for terrorism and radical subversion.
- Helping ensure the territorial integrity of Iran and coordinating ways in which we might counter Soviet activities in the region.

The President made clear that a Western dialogue with Iran would be precluded unless Iran were willing to use its influence to achieve the release of Western hostages in Beirut. He also made clear that we could not and would not engage in trading arms for hostages. Secretaries Shultz and Weinberger retained their original position on providing any arms to Iran, but Attorney General Meese and Director Casey both supported the concept as a valid means of opening the dialogue. Attorney General Meese noted a 1981 determination by then Attorney General French Smith that transferring small quantities of arms through third countries under a Covert Action Finding was not illegal.

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On January 16, a meeting was held in the National Security Advisor's office with Secretary Weinberger, Attorney General Meese, Director Casey, and CIA General Counsel Stanley Sporkin. At this meeting, the final draft of the Covert Action Finding was reviewed and was forwarded to the President with Secretary Weinberger dissenting.

On January 17, 1986, the President approved a Covert Action Finding (Tab A) directing that the intelligence community proceed with special activities aimed at accomplishing the goals set forth above. The President further determined that the activities authorized by the Finding justified withholding prior Congressional notification due to the extreme sensitivity of the dialogue being established. He further noted that public knowledge of the program would place the American hostages in Lebanon at greater risk. Noting his concern for the lives of those carrying out the operation (both U.S. and foreign), he directed that the Director of Central Intelligence refrain from reporting the Finding to the appropriate committees of the Congress until reasonably sure that those involved would no longer be in jeopardy.

On February 5-7, U.S. officials (NSC and CIA [redacted]), a representative of the Israeli Prime Ministry (Amiram Nir), and a senior-level Iranian official [redacted]

[redacted] met in London. At this meeting, the Iranians agreed that, if the USG would provide defensive weapons (TOWs) to Iran, they would, in turn, provide same to the Afghan Mujahideen. The U.S. side agreed to explore this possibility and, working with the Israelis, established the following mechanism for transfer of the weapons:

- The Iranian intermediary (Ghorbanifar) would deposit funds in an Israeli account.
- The Israelis would transfer funds to a sterile U.S.-controlled account in an overseas bank.
- Using these funds, the CIA would covertly obtain materiel authorized for transfer from U.S. military stocks and transport this to Israel for onward movement to Iran.

Using the procedures stipulated above, \$3.7 million was deposited in the CIA account in Geneva on February 11, 1986 and on February 14, 1,000 TOWs were transported to Israel for pre-positioning. These TOWs were transferred by CIA from DOD (U.S. Army stocks in Anniston, Alabama) and transported through [redacted] using standard CIA-DOD [redacted] logistics arrangements. Policy-level coordination for these arrangements was effected by NSC (North) with DOD (Armitage) and CIA (Clair George). The TOWs were placed in a covert Israeli facility awaiting onward shipment.

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On February 19-21, U.S. (NSC and CIA), Israeli and Iranian officials met in Germany to discuss problems in arranging a meeting among higher-level officials. At this meeting, the Iranians committed [REDACTED]

[REDACTED] After coded authorization was received from Washington, the U.S. side agreed to provide 1,000 TOWs to Iran as a clear signal of U.S. sincerity. This delivery was commenced on the morning of February 20 and completed in two transits to Tehran on February 21. Transportation from Israel to Iran was aboard a false flag Israeli aircraft.

[REDACTED]

On February 24, U.S. (CIA and NSC) officials met again in Frankfurt with the Israeli and Iranian officials to discuss next steps. At this meeting, the U.S. side urged that the Iranians expedite a meeting among higher-level officials on both sides.

On February 28, the Prime Minister of Israel wrote to President Reagan (Tab B) urging continued efforts to achieve a strategic breakthrough with Iran, but asking consideration for the safety of recently seized Israeli hostages.

On March 7, U.S. (CIA and NSC) and Israeli representatives met with the Iranian intermediary in Paris to determine whether any further progress was possible in arranging for a high-level meeting with U.S. and Iranian officials. During these meetings, the intermediary emphasized the deteriorating economic situation in Iran and Iranian anxieties regarding increasing Iraqi military effectiveness.

The escalation of tensions with Libya, leading up to the April 14 strike, prevented further dialogue from taking place until the Iranians urged the intermediary (Ghorbanifar) to accelerate the effort in late April, 1986. At that point, the Iranian expatriate advised us through the Israeli point-of-contact that the leadership in Tehran was prepared to commence a secret dialogue

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with the United States along the lines of our established goals. We believe that the Iranians were stimulated to renew the contact by the April 17 murder of hostage Peter Kilburn [REDACTED] in retaliation for the U.S. raid on Libya.

[REDACTED]

The Iranian expatriate told the NSC and CIA officers, who met with him in Europe at the end of April, that the Iranians did not wish to be accused of any culpability in Kilburn's death.

[REDACTED]

On May 6, 7, 1986, U.S. and Israeli officers met in London with the Iranian intermediary in which he urged that we take immediate steps to arrange for a high-level U.S./Iranian meeting in Tehran. During the London meeting, the Iranian urged that we (U.S. and Israel) take immediate steps to help with Iranian air defense. He emphasized that the Iraqi Air Force was increasingly effective of late and that the Iranians were desperate to stop attacks on population centers. The Israelis also used this opportunity to privately ask the U.S. to replace the 508 TOWs which they had sent to Iran in August, 1985. The Israelis were informed via coded message on May 15 that the U.S. had agreed to the Iranian request for limited anti-air defense equipment and to replenish the 508 TOWs sent by Israel.

Based on assurances that we could at last meet face-to-face with top-level Iranian officials, on May 15, the President authorized a secret mission to Tehran by former National Security Advisor McFarlane, accompanied by a CIA annuitant, CIA communicators, members of the NSC staff, and the Israeli and Iranian interlocutors.

On May 16, the Iranians, through the Israelis provided \$6.5M for deposit in the CIA secure funding mechanism. The funds were used to acquire 508 TOW missiles (for replenishing the TOWs Israel shipped in September 1985) and acquiring HAWK missile electronic spare parts. This material was subsequently moved to [REDACTED] repackaged and shipped to Kelly AFB for onward movement to Israel on May 22. As in the February shipment, the CIA provided logistics support for the movement of this materiel to Israel.

In order to ensure operational security, the McFarlane trip was made from Israel, coincident with the delivery of a pallet of spare parts for Iranian defensive weapons systems (HAWK spare

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electronic parts). At the specific request of the Iranians, alias foreign documentation [REDACTED] -- obtained from the CIA -- was used. CIA also provided covert transportation support from CONUS to Israel for the McFarlane party. The group was transported from Israel to Tehran aboard an Israeli Air Force 707 with false flag markings.

In the course of the four-day (May 25-29) visit, lengthy meetings were held with high-level Iranian officials, the first direct contact between the two governments in over six years. Mr. McFarlane and his team were able to establish the basis for a continuing relationship and clearly articulate our objectives, concerns, and intentions. The group was also able to assess first hand the internal political dynamic in Tehran and the effect of the war which Iran clearly can no longer win. Using Presidentially approved Terms of Reference (Tab B), which had been reviewed and approved by appropriate Cabinet officers, McFarlane emphasized that our interest in Iran transcended the hostages, but the continued detention of hostages by a Lebanese group philosophically aligned with Iran prevented progress. During the visit, Mr. McFarlane made clear:

- that we fundamentally opposed Iranian efforts to expel us from the Middle East;
- that we firmly opposed their use of terrorism;
- that we accepted their revolution and did not seek to reverse it;
- that we had numerous other disagreements involving regional policies (i.e., Lebanon, Nicaragua, etc.), but might also find areas of common interest (i.e., Afghanistan and the Soviet threat to the Gulf) through dialogue.

During these meetings, both sides used the opportunity to detail the obstacles to implementing a strategic relationship between the two countries. In addition to the points noted above, Mr. McFarlane emphasized the political problems caused by Iranian involvement in the hostage issue. The Iranians objected to the USG embargo on U.S. military supplies already paid for plus the continued USG blocking of Iranian assets in the U.S., even after U.S. courts had ruled in their favor. During the course of these meetings, the Iranian officials admitted that they could not win the war, but were in a dilemma in Tehran over how to end the conflict given the need to present an Iranian "victory" before it could be concluded. They emphasized that the original aggressor, Saddam Hussein, must be removed from power in order for the war

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to end. Mr. McFarlane concluded the visit by summarizing that notwithstanding Iranian interest in carrying on with the dialogue, we could not proceed with further discussions in light of their unwillingness to exert the full weight of their influence to cause the release of the Western hostages in Lebanon.

On June 10, Majlis Speaker Rafsanjani, in a speech in Tehran made guarded reference to Iranian interest in improved relations with the U.S. On July 26, Father Lawrence Jenco was released in the Bekka Valley and found his way to a Syrian military checkpoint.

On August 3, the remaining three pallets (less than 4 planeload) of electronic parts for Iranian anti-aircraft defenses (HAWK missile sub-components) arrived in Tehran. As in all flights to/from Iran this delivery was made with an Israeli Air Force aircraft (707) using false flag markings. Timing of the delivery was based on coordination among U.S., Israeli and Iranian officials.

In early August 1986, the contact with the Iranian expatriate began to focus exclusively on the willingness of the USG to provide military assistance to Iran in exchange for hostages and we sought to establish different channels of communication which would lead us more directly to pragmatic and moderate elements in the Iranian hierarchy. In mid-August, a private American citizen (MGEN Richard Secord, USAF [Ret.]) acting within the purview of the January Covert Action Finding, made contact in Europe with [REDACTED] a relative [REDACTED] of a senior Iranian official (Rafsanjani). With the assistance of the CIA, this Iranian [REDACTED] was brought covertly to Washington for detailed discussions. We judged this effort to be useful in establishing contact with a close confidant of the man judged to be the most influential and pragmatic political figure in Iran (Rafsanjani). These discussions reaffirmed the basic objectives of the U.S. in seeking a political dialogue with Tehran. We also provided assessments designed to discourage an Iranian offensive and contribute to an Iranian decision to negotiate an end to the war. The assessments also detailed the Soviet threat to Iran.

Through August, September, and October 1986, numerous additional meetings were held in Europe between U.S. representatives and the new Iranian contacts. During the October 26, 1986 meeting in Frankfurt, Germany, the U.S. side, as in the past, insisted that the release of the hostages was a pre-requisite to any progress. The Iranian, [REDACTED] urged that we take a more active role in support for the Afghan resistance. [REDACTED]

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The Iranians also proffered, and the U.S. accepted, the offer of a Soviet T-72 tank [REDACTED]. The Iranians have also offered to provide a copy of the 400 page interrogation of Beirut Station Chief William Buckley. At this meeting [REDACTED] stated that there was a "very good chance that another American or two would be freed soon." On October 29, with U.S. acquiescence, Israel provided Iran with an additional increment of defensive weapons (500 TOW missiles).

Late on October 31, [REDACTED] called the U.S. citizen (Hakim) tasked to maintain contact and advised that Iran had "exercised its influence with the Lebanese" in order to obtain the release of an American -- David Jacobsen -- and an uncertain number of French hostages. He further noted that this would be part of the purpose of the Iranian Foreign Minister's visit to Syria -- an event we became aware of on November 1, 1986. [REDACTED] stated that the situation in Tehran, as well as Iranian influence over Hizballah were both deteriorating. [REDACTED]

On November 2, David Jacobsen was released by his captors near the old American Embassy compound in West Beirut. The U.S. Embassy in East Beirut immediately dispatched an embassy officer to West Beirut to pick up Mr. Jacobsen.

It is now apparent that persistent U.S. efforts to establish contact with Iran and subsequent public speculation regarding these contacts have probably exacerbated the power struggle in Iran between pragmatic elements (led by Rafsanjani) and more radical factions (under the overall sponsorship of Ayatollah Montazeri). In late October, radical supporters (of Montazeri) revealed the (Rafsanjani) contact with the USG and the terms of the contact. In order to defend himself against charges of colluding with the USG and to preserve a degree of latitude for both parties, Majlis Speaker Rafsanjani provided a purposely distorted version of the May 1986 McFarlane mission in his November 4 address to the masses. Moderate Iranian political leaders apparently now feel constrained to settle their internal political problems before proceeding with the U.S. relationship. The revelations in Tehran regarding the McFarlane mission are demonstrable evidence of the internal power struggle. The October 1986 arrest of radical leader Mehdi Hashemi, a close confidant and son in-law of Ayatollah Montazeri, for acts of terrorism and treason has caused further internal conflict.

Resolution of the Lebanon hostage situation is also complicated by waning Iranian influence in Lebanon due in part to financial constraints and the fact that the Libyans are expanding their

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contacts with more radical Hizballah elements. [REDACTED]

On November 7, the day after a meeting with U.S. officials, Iranian government authorities arrested six other individuals involved in radical activities. Among the two were senior military officers and a Majlis deputy (Ahmad Kashani), the grandson of Ayatollah Kashani, a conspirator in the 1949 attempt against the Shah.

Despite these internal difficulties and attendant publicity in the Western media, the Iranians continue to maintain direct contact with the USG and met again in Geneva on November 9-10, with NSC and CIA representatives. [REDACTED]

[REDACTED] the two principal Iranian contacts continue to communicate with the U.S. [REDACTED]

[REDACTED] the Iranians still intend to deliver the T-72 tank [REDACTED]

[REDACTED] "positive statement" will be made in the near future by Rafsanjani. [REDACTED]

[REDACTED] Both [REDACTED] have warned that further disclosures could harm them personally and the longer-term interests of the two countries.

It is important to note that since the initiation of the USG contact with Iran there has been no evidence of Iranian government complicity in acts of terrorism against the U.S. We do not know who seized the last three American hostages in Beirut (Messrs. Reed, Cicippio, and Tracy). The Islamic Jihad Organization (IJO) has disclaimed responsibility -- as have our Iranian interlocutors. [REDACTED]

[REDACTED] It is possible that these three Americans were kidnapped at the direction of Iranian radicals [REDACTED]

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loyal to the now imprisoned Mehdi Hashemi. If so, this could be an effort to undermine the nascent U.S.-Iranian strategic dialogue and exacerbate the internal Iranian power struggle against the pragmatic faction with which we have been in contact.

Throughout this process, the USG has acted within the limits of established policy and in compliance with all U.S. law. The shipment of 2,008 U.S. TOWs and 235 HAWK missile electronic spare parts was undertaken within the provisions of a Covert Action Finding.

During the course of this operation -- and before -- the U.S. was cognizant of only three shipments from Israel to Iran. Specifically:

- The Israelis acknowledged the August 1985 shipment of 508 TOWs after it had taken place. Until we were advised by the Israelis, and had the information subsequently confirmed by Iranian authorities, we were unaware of the composition of the shipment. We subsequently agreed to replace these TOWs in May of 1986.
- The November 1985 shipment of 18 Israeli HAWK missiles was not an authorized exception to policy. This shipment was retrieved in February 1986 as a consequence of U.S. intervention.
- The October 1986 shipment of 500 TOWs from Israel to Iran was undertaken with U.S. acquiescence. These TOWs were replaced on November 7.

In support of this Finding and at the direction of the President, the CIA provided the following operational assistance:

- CIA communications officers and an annuitant to assist in various phases of the operation.
- Sterile overseas bank accounts for financial transactions.
- A secure transshipment point for the dispatch of U.S. military items from the U.S.
- Transshipment of military items from the U.S. to Israel.
- Communications and intelligence support for the meetings with Iranian officials and the McFarlane trip to Tehran in May.

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- Cleared meeting sites in Europe for meetings with Iranian officials.
- Fabricated and alias documentation for U.S. and foreign officials for meetings in Europe and Tehran.

The weapons and materiel provided under this program were judged to be inadequate to alter either the balance of military power or the outcome of the war with Iraq. They have, however, demonstrated the U.S. commitment to Iranian territorial integrity and served to support those in Iran interested in opening a strategic relationship with the U.S. U.S. efforts over the last 18 months have had tangible results on Iranian policy:

- The Rafsanjani/Velayati intervention on behalf of the TWA #847 passengers (June 1985).
- Iranian direction that the hijacked Pan Am #73 would not be received in Iranian territory if it left Karachi.

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- The release of three American and at least two French hostages.
- The initiation of an Iranian dialogue with their regional neighbors.
- Continued delay in the Iranian "final offensive."

Finally, it must also be noted that the U.S. arms embargo notwithstanding, West European nations have provided \$500 million a year in military equipment to Iran. Most of these transfers were accomplished with government knowledge and/or acquiescence.

All appropriate Cabinet Officers have been apprised throughout. The Congress was not briefed on the covert action Finding due to the extraordinary sensitivity of our Iranian contacts and the potential consequences for our strategic position in Southwest Asia. Finally, our efforts to achieve the release of the hostages in Lebanon must continue to rely on discreet contacts and intermediaries who cannot perform if they are revealed.

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